

Part III: EMS Funding and 2005 Financial Plan

Introduction: This section of the EMS 2005 Annual Report focuses on EMS revenues and expenditures for 2004 and projections for 2005. Some historical and forecast information is incorporated for context, including information on the current EMS funding mechanism and the projected status of the EMS Financial Plan through the current levy period. Components include the following:

- EMS Levy Structure
- Current EMS Revenues
- Current EMS Expenditures
- EMS Expenditure and Revenue Trends
- The 2005 Financial Plan
- Recommendations for Fund Balance and Levy Rate

Please note that under terms of an inter-local agreement between King County and the City of Seattle, EMS levy funds collected within Seattle go directly to the City. These discussions focus on the EMS fund within the remainder of King County, excluding the City of Seattle.

A. EMS Levy Structure

The EMS levy is a regular property tax levy subject to the limitations contained in Chapter 84.55.010 RCW. EMS levy funds are restricted by RCW and can only be spent on EMS-related activities. In November 2001, King County voters approved an EMS levy to provide funding for the 2002-2007 period. Also passed in November 2001, Initiative 747 limits total levy funds to a 1% increase for existing properties, except for new construction.

EMS Levy funds are collected throughout King County and managed by the EMS Division for the region based on policy guidelines of the *2002 EMS Strategic Plan Update*. As noted above, funds generated within the City of Seattle are managed separately by the city. Funds are spent in four areas: Advanced Life Support (ALS), Basic Life Support (BLS), Regional Support Services (such as training, regional medical direction and community programs), and Strategic Initiatives. ALS services are provided by five agencies, BLS services provided by all fire agencies, Regional Services and Strategic Initiatives are provided by the EMS Division.

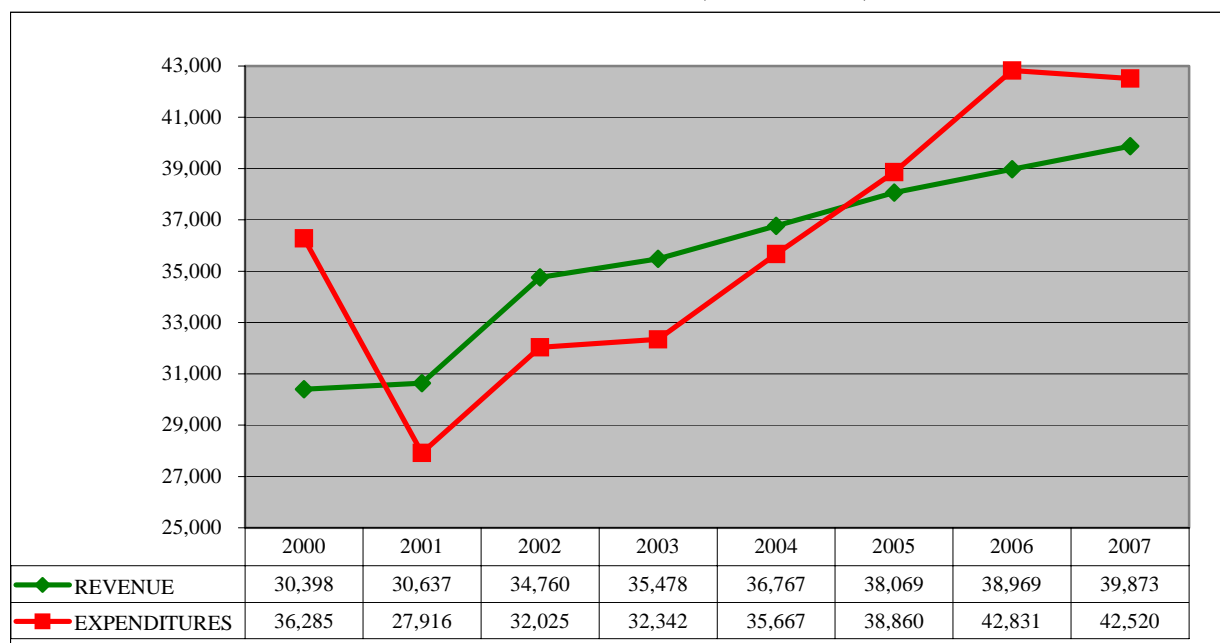
The EMS Financial Plan assumes modest growth in property values, continued low inflation, and a one-percent limit on revenues from existing properties. There is a required End Fund Balance (EFB) of 1/12 yearly expenditures. The plan also assumes that expenditures increase by Consumer Price Index (CPI) as estimated by the King County Economist, anticipates that ALS expenditures may increase by more than CPI, and forecasts the addition of new ALS units throughout the levy period. This results in expenses increasing at a rate higher than revenues over the duration of the levy.

With expenditures projected to increase at a rate higher than revenue growth, the levy amount is set so that funds collected in the first years of the levy can be saved and used to cover expenses in the last years of the levy (when expenditures are higher than revenues). As projected, revenues were and did exceed expenditures through 2004. Expenditures are projected to exceed revenues by a small amount in 2005. It is currently projected that revenues placed in the fund balance between 2002 and 2004 will be sufficient to fund expenses in 2005, 2006, and 2007.

The following chart shows actual and projected revenues and expenses from 2000 to 2007:

EMS FUND – EXPENDITURES VS. REVENUES

All numbers in thousands (000 omitted)



For more details on forecast revenues and expenditures, see *Section D: EMS Expenditure and Revenue Trends* on page 64.

B. EMS Revenues

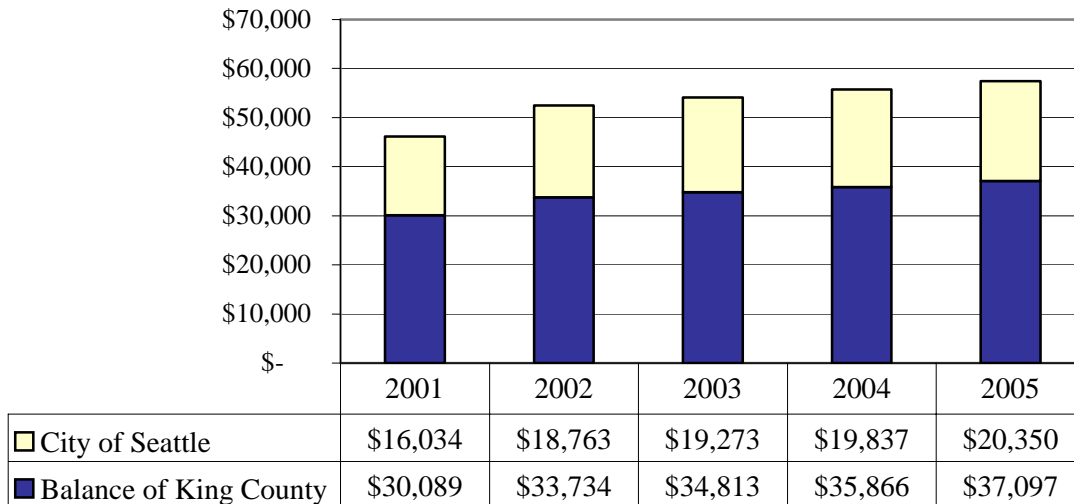
The 2004 effective levy rate was \$.23706 per \$1,000 assessed value with a total assessment of \$55,703,623. The 2005 effective levy rate is .23186 per \$1,000 assessed value with a total assessment of \$57,448,128. This is 3.13% over 2004.

The total assessment for the levy is divided proportionately between the City of Seattle and the remainder of King County based on assessed property values in each area. In 2004, the City of Seattle's portion of the assessment was 35.6%; the remainder of King County's portion of the

assessment was 64.4%. In 2005, the City of Seattle's portion of the assessment was 35.4%; the remainder of King County's portion of the assessment was 64.4%.

**AMOUNT ASSESSED FOR CURRENT LEVY
ACTUAL 2001 - 2005**

(All numbers in thousands -- 000 omitted)



In addition to real and personal property taxes, other revenues include miscellaneous taxes, interest earnings, and fees for reimbursable services. King County contributes \$375,000 annually in Current Expense Fund monies to King County Medic One. Total revenues in 2004 for the balance of King County were \$36.8 million. The regional levy and associated taxes generated 98% of the total revenues with current expense and other income combining to generate the remaining 2%.

2004 EMS Revenue (balance of King County)

Revenue Source	2004	%
Property Taxes Current	\$35,054,735	95.3%
Delinquent Taxes	\$752,893	2.1%
Other Taxes	\$109,449	0.3%
Other Revenues	\$192,983	0.5%
Interest Income	\$281,742	0.8%
CX Contribution	\$375,000	1.0%
Total	\$36,766,802	100.0%

The 2004 beginning fund balance was \$7.8 million; the year-end fund balance was \$9.3 million. Funds in excess of the required ending fund balance of \$3 million were placed in a reserve to pay for planned services in 2006 and 2007 when expenses are forecast to exceed revenues.

Revenues for 2005 are estimated at \$38 million. The regional levy and associated taxes represent 98% of total estimated revenue. Projected end fund balance for 2005 is \$9.8 million. Funds in excess of the required fund balance are needed to cover expenditures above revenue in years 2006 through 2007.

2005 Estimated EMS Revenue (balance of King County)

Revenue Source	2005	%
Property Taxes Current	\$36,262,706	95.2%
Delinquent Taxes	\$841,277	2.2%
Other Taxes	\$113,025	0.3%
Other Revenues	\$137,000	0.4%
Interest Income	\$340,000	0.9%
CX Contribution	\$375,000	1.0%
Total	\$38,069,009	100%

Total revenue grew 3.6% from 2003 to 2004, and is projected to grow 3.5% in 2005. The increase is primarily due to property taxes on new construction. While assessed valuation increased 5% from 2003 to 2004 and 5.5% to 2004, property taxes revenues increased 4% a year from 2003 to 2005. Additional information on projected revenues through the end of the current 2002-2007 levy period is included in *Section D. EMS Revenue and Expenditure Trends* (see page 64).

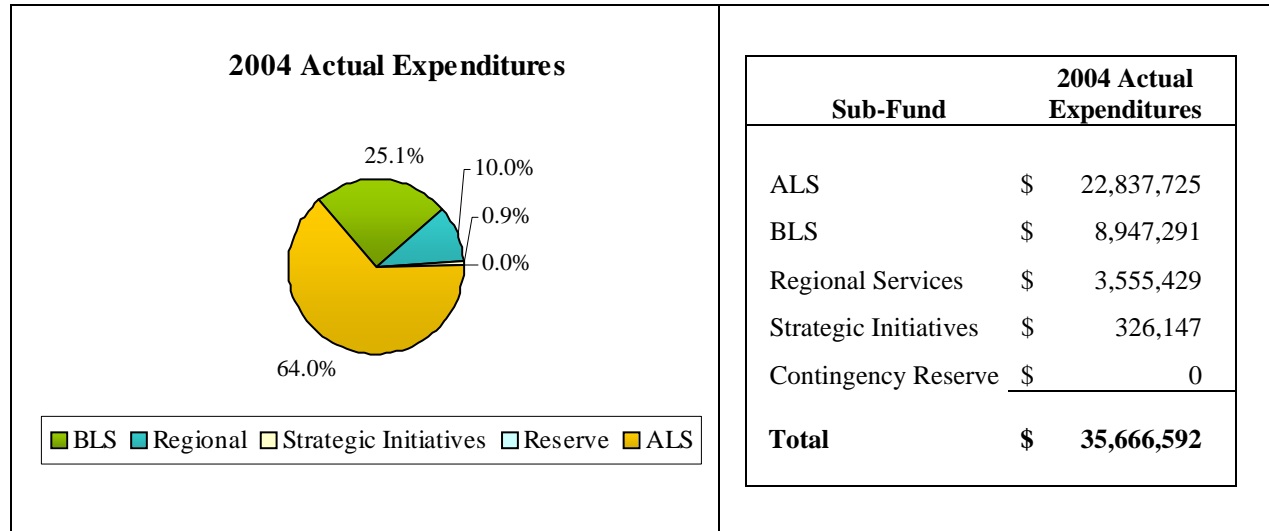
C. EMS Expenditures

EMS revenues support four major EMS activities related to direct service delivery or support programs. These programs are:

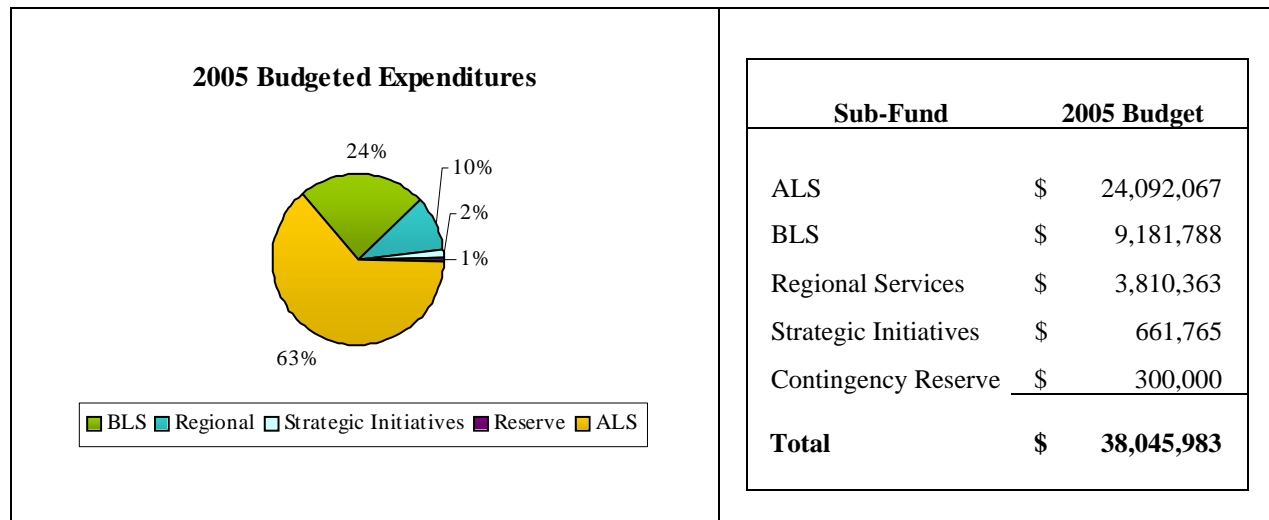
- Advanced Life Support (ALS) Services
- Basic Life Support (BLS) Services
- Regional Support Programs
- Strategic Initiatives

The *2002 EMS Strategic Plan Update* limits expenditure increases for ALS, BLS and Regional Service to the local area Consumer Price Index (CPI). If there is sufficient funding available, increases for ALS services can be raised above CPI to avoid cost shifting to ALS agencies. Advanced Life Support (ALS) Services funding is based on a standard allocation per unit; BLS funding is based on an allocation formula per agency; Regional Support Programs are based on cost of services limited to increases based on forecast CPI; and Strategic Initiatives are based on

approved budgets and estimated cash flow. Yearly reserves to provide for unanticipated expenses are also budgeted. No reserves from fund balance were used in 2004.



Expenditures for 2004 were budgeted using a forecast CPI increase of 2.1%. In 2004, 94% of the total budget amount of \$38 million was spent including carry forward funds from 2003. Some ALS providers and Regional Services placed unexpended budget in designated reserves for future years where expenses are projected to exceed designated budgets. Unexpended Contingency was returned to fund balance. Budgeted expenditures for 2005 are based on a CPI forecasted increase of 2.9%. Cash flows for Strategic Initiatives increased over 2004 based on individual project plans.



Advanced Life Support (ALS) Services: Since the first EMS levy in 1979, regional paramedic services have been largely supported by the EMS levy. The EMS Division manages contracts that provide funds directly to five paramedic provider agencies in King County: Bellevue Fire

Department (Bellevue Medic One), Public Health - Seattle & King County (King County Medic One), Redmond Fire Department (Redmond Medic One), Shoreline Fire Department (Shoreline Medic One), and Vashon Island Fire & Rescue.

The EMS levy funds ALS services using a *standard unit cost* methodology determined by staffing units with two Harborview-trained paramedics, 24 hours a day, 365 days a year. These expenditures include personnel, medical equipment and supplies, support costs for dispatch, paramedic supervision, medical direction, continuing medical education, and other EMS-related expenses. In 2004, the standard unit cost allocation was \$1.33 million per paramedic unit. This allocation reflected an 2.1% increase over the 2003 allocation of \$1.3 million per unit.

Two types of paramedic units qualify for half of the standard unit cost funding. Emergency Medical Technician/Paramedic (EMT/P) units are staffed 24-hours per day with one EMT trained in defibrillation and one paramedic. Part-time (or 12-hour) paramedic units are staffed with two paramedics for twelve hours during peak workload periods. Each EMT/P and 12-hour unit received \$665,663 in 2004, although EMT/P units are additionally supported with local fire department funds. Vashon Medic One is funded at a 0.5 unit allocation. Based on the recommendations of the Medical Directors, EMT/P units are now being phased out of the EMS system (see Part I - EMS System Review discussion on page 15).

The total annual EMS levy allocation for *each paramedic provider* is determined by the number of units staffed with two paramedics, the number of EMT/P units, the number of 12-hour 2-paramedic units, and the number of vehicles due for replacement that year. Start-up costs for any new paramedic units are added separately. Paramedic vehicle replacement is funded separately from the standard unit cost allocation and follows a standardized paramedic vehicle replacement plan. Medic units are currently replaced every three years and then placed in a backup vehicle status for three additional years. The allocation for vehicle replacement costs in 2003 was \$120,421 per vehicle. Four vehicles were funded in 2003; five vehicles were funded in 2004.

The total number of ALS units as of December 2004 is shown in the following chart:

	Full Units (2 paramedic / 24 hour)⁽¹⁾	Half Units (EMT-P or 12 hour)⁽²⁾	Total Funding Units
Redmond	2	1	2.5
King Co.	7		7.0
Bellevue ⁽⁴⁾	3	1	3.5
Shoreline	2	1	2.5
Vashon ⁽³⁾		1	.5
			16.0

⁽¹⁾ Full Units are funded at 100% of the Standard Unit Cost of \$1,303,942.

⁽²⁾ Half Units are funded at 50% of the Standard Unit Cost of \$651,971.

⁽³⁾ Vashon funding is currently set at .5 of 24-hour unit.

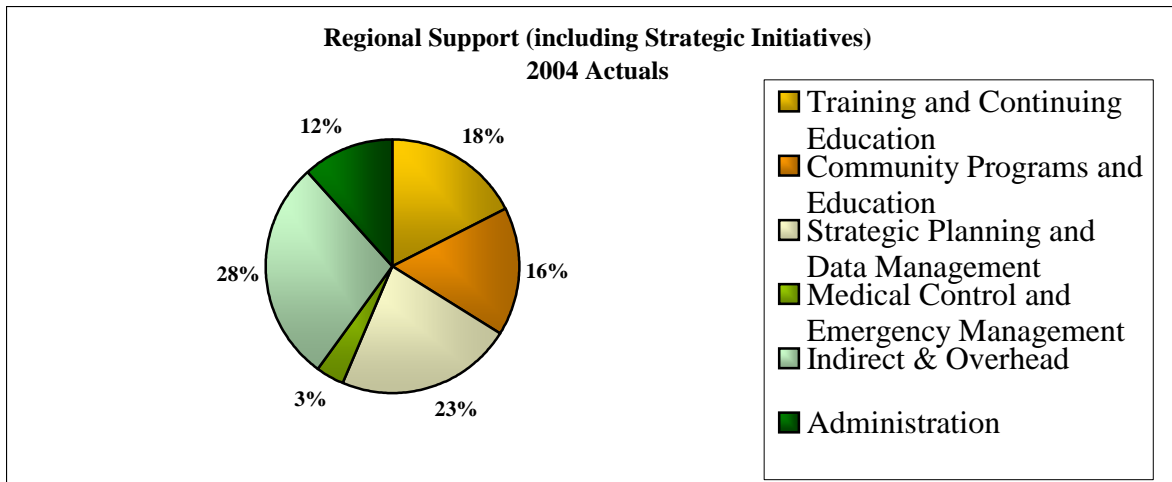
⁽⁴⁾ Does not include additional funding .25 unit funding for Medic 3.

The *2002 EMS Strategic Plan Update* calls for an annual review of ALS costs to minimize cost shifting of ALS expenses to provider agencies. An ALS task force comprised of representatives of the different ALS providers meets each year to review costs and provide recommendations to the EMS Advisory Committee. Since a significant increase was made in 2003, a CPI-based increase of 2.1% was recommended for 2004. Based on rising costs, an increase of 5.06% was recommended for 2005 (2.16% over CPI increase of 2.9%).

Basic Life Support (BLS) Services: The levy provides partial funding to BLS providers to help ensure uniform and standardized patient care and enhance BLS services. Basic Life Support services are provided, outside the City of Seattle, by thirty-three local fire departments and fire districts. Beginning in 2002, the total amount of BLS funding was increased by the local area CPI each year as noted in the *2002 EMS Strategic Plan Update*. The total annual BLS dollar allocation for 2004 was \$8.9 million; the total for 2005 is \$9.16 million.

The task force that completed the *2002 EMS Strategic Plan Update* also recommended a thorough review of the BLS funding formula and in early 2002 a BLS Funding Formula Review Committee convened to discuss the critical issues. The group was able to attain consensus on the new criteria for allocating BLS funds and the revised formula was used to calculate the 2003 BLS allocations. The new formula was again reviewed in May 2003, May 2004, and July 2005 to monitor the impacts and validate the assumptions. The intended effects were evident (reduction of hold harmless) and the review committee recommended continued use of the new formula. Minor improvements were recommended and implemented.

Regional Services: The primary purpose for regional EMS programs and services is to provide support to critical functions essential to providing the highest quality out-of-hospital emergency care available. This includes uniform training of EMTs and dispatchers, regional medical control, regional data collection and analysis, quality improvement activities, and financial and administrative management (including management of ALS and BLS contracts). Regional coordination of these various activities is important in supporting a standard delivery of pre-hospital patient care, developing regional policies and practices that reflect the diversity of needs, and maintaining the balance of local area service delivery with centralized interests.



The 2002 *EMS Strategic Plan Update* limits increases in funding for Regional Services to the local CPI. Expenditures, particularly labor expenditures related to resolution of labor agreements, have increased higher than the CPI. The 2004 budget for Regional Support was \$3.8 million. Approximately \$3.5 million (or 93% of the budget) was expended in 2004. Approximately \$260,000 was placed in reserves to cover future costs, particularly labor and indirect and overhead costs that are projected to increase higher than CPI. The 2004 budget for Regional Services was increased by the forecast CPI of 2.1%. In addition and as planned, \$50,000 budgeted for maintenance related to the Regional Data Collection Project (RDC) was transferred from the Strategic Initiative budget to Regional Services.

Strategic Initiatives: The term ‘Strategic Initiative’ is used to describe a handful of new and innovative programs that are thought to have significant impact on the success of the Strategic Directions. Strategic Initiatives are funded with lifetime budgets. These are not increased each year by CPI. However, the budgeted amount by year is adjusted to reflect changing cash flows based on project needs. For program details, please see *Section B. 2002-2007 Strategic Initiatives* - page 21.

Current Strategic Initiative budgets are shown in the following chart:

Strategic Initiative Summary

For 2006 Requested Budget

	2003	2004	2005	2006	2007	Total
Dispatch Initiatives						
Web Based CBD Criteria	1,152	3,750	95,736	170,198	17,604	288,440
EMD QI	23,863	24,171	28,000	29,725	28,000	133,759
Enhanced CBD	51,064	67,988	68,000	89,101	75,000	351,153
Technology Initiatives						
Web-based Training for Dispatch	1,383	12,000	15,000	20,000	20,000	68,383
Web-based Training for EMS (Enhanced)	25,000	50,000	189,900	195,000	200,300	660,200

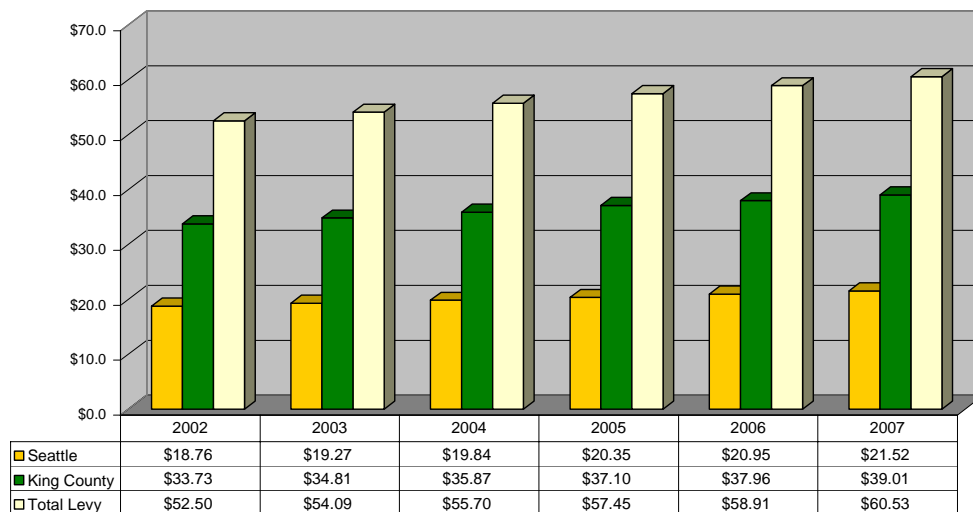
Regional Electronic Data Collection Project	149,234	21,338				170,572
RETRO		119,300	73,455	23,300		216,055
EMS System Efficiencies						
Procedure & Patient Treatment Evals	-	-	38,908	55,941	58,469	153,318
Enhanced Care for EMS Patients	-	-	20,043	28,818	30,121	78,982
Injury Prevention Programs	21,089	19,004	37,000	38,000	39,000	154,093
Levy Planning			52,703	158,434	95,063	306,200
TOTAL	123,551	326,147	685,928	858,672	586,857	2,581,155

D. EMS Revenue and Expenditure Trends

Revenue Trends: The primary revenue source for the EMS system in King County is the 2002-2007 EMS property tax levy. Levy revenue growth is limited by a voter-approved tax initiative (Initiative 747). This initiative limits revenue growth from existing properties to 1% per year, plus new construction.

The following chart shows forecast levy assessments for both Seattle and the remainder of King County:

Forecast Levy Assessment (amount billed in millions)

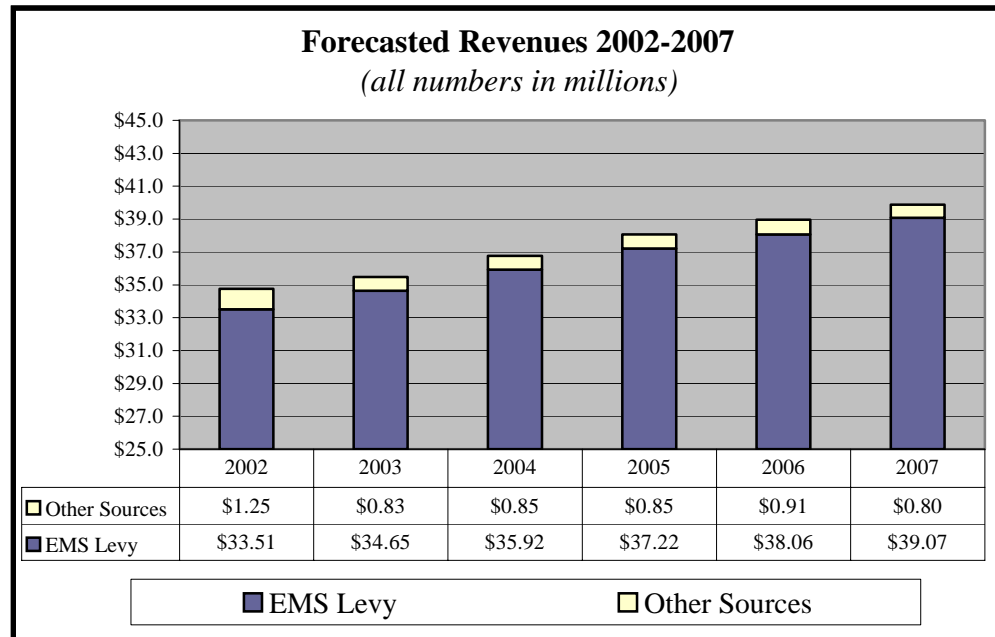


The EMS Financial Plan assumes modest growth in property values, continued low inflation, a one-percent limit on fund growth from existing properties, growth in expenditures related to anticipated regional demand for Advanced Life Support Services (ALS), and stable growth in

other services at the level of local consumer price index (CPI). Forecasted total levy assessment including both the City of Seattle and the remainder of King County is projected to increase from \$52.5 million in 2002 to \$60.5 million in 2007. This is a total increase of 15% or an average of 3% per year. Growth over 1% is primarily due to property taxes on new construction.

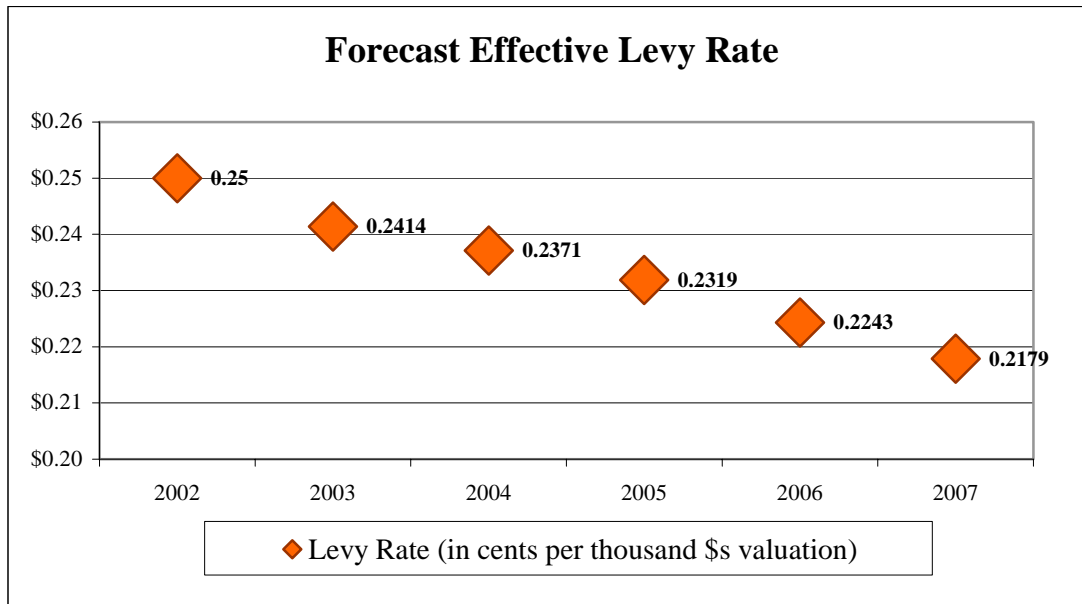
While the assessed amount for the City of Seattle has increased by 8.6% between 2002 and 2005, the proportion of the levy has decreased slightly (from 35.72% in 2002 to 35.4% in 2005). The assessed amount for the remainder of King County has increased 10%; the proportion of the levy has increased from 64.3% to 64.4%.

Total EMS Division tax revenues are projected to increase 14.7% from 2002 to 2007 (or an average of 2.9% per year). Total revenues are projected to increase from \$35 million in 2002 to \$39.9 million in 2007. Most other revenues are projected to remain stable, including current expense contributions of \$375,000 per year. The following chart shows actual and projected revenues for King County EMS Fund (excluding Seattle) through 2007:



* In 2002, King County Contributed Additional CX funds related to the Paramedic contract for KCM1.

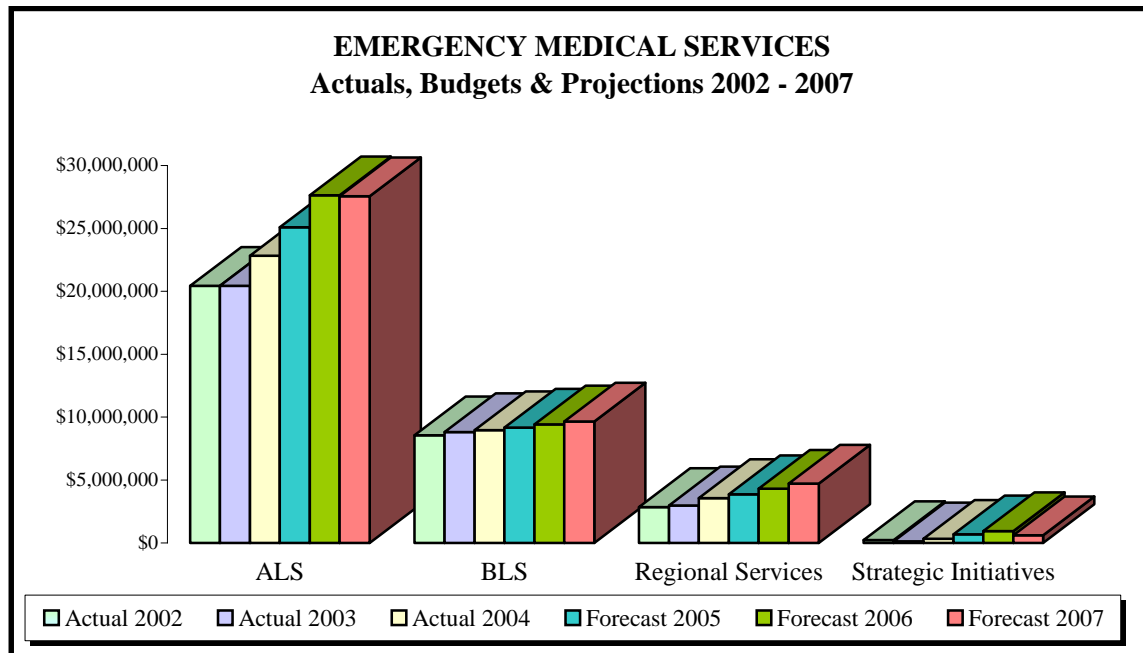
While EMS revenues are projected to increase, the effective levy rate will decrease. As described in *Section A: Levy Structure*, Initiative 747 limits the total increase in EMS levy assessment to 1%. Even though the total assessed values of properties in King County increased X% from 2004 to 2005, the total EMS levy collected from these properties was limited to a 1% increase. Thus, the effective levy rate is projected to decrease from \$0.25 per thousand dollars of valuation in 2002 to \$0.2179 in 2007.



Forecasted new construction growth and forecasted CPI are adjusted each year based on the recommendations of the King County Economist. Forecast revenues are sufficient to cover forecast expenditures through the end of the levy period. There is sufficient fund balance to accommodate an increase in the ALS allocation over CPI in 2006 (minimize cost shifting to ALS providers). The conversion of Medic 3 and Medic 35 from EMT/P units to fully funded 2-paramedic units and the increase in funding for Vashon have used most of the remaining available fund balance. Funds for addressing needs not included in the *2002 EMS Strategic Plan Update*, such as desired service increases to outlying areas, are limited.

Expenditure Trends: There are two main factors affecting expenditure trends; increased costs and the addition of new ALS service. Expenditures are projected to increase from \$32 million in 2002 to \$42.5 million in 2007. This is a 34% increase or an average increase of 6.8% per year. Since ALS is the largest recipient of EMS levy funds, increases in ALS due to new units and allocations increases above forecast CPI have a significant effect on expenditures. Since expenditure increases in each sub-fund area are tied to the forecast local CPI, long term changes in the CPI rate can have an impact on the projected end fund balance. The forecast CPI was increased to 2.9% in 2005, 2.6% in 2006, and reduced to 2.3% in 2007.

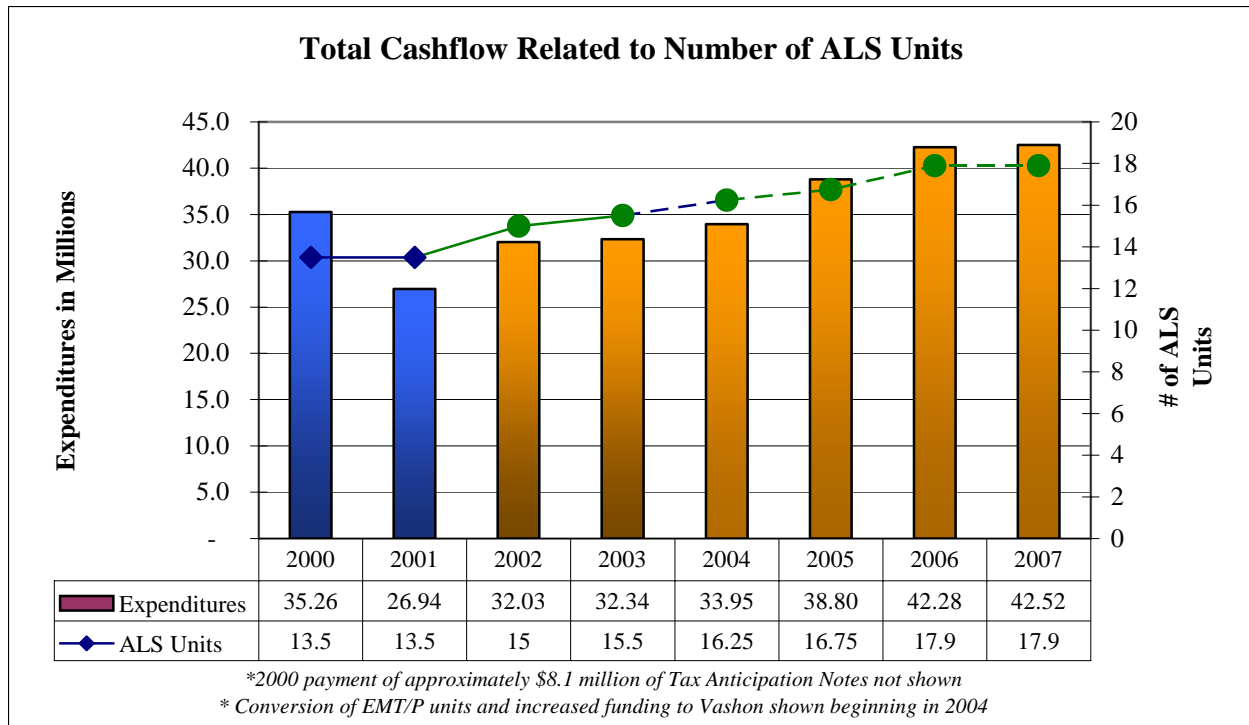
The following chart shows projected expenditures by sub-fund for the current levy period:



Unit Additions: Since the beginning of the current levy period, one 0.5 unit expansion was added to the system in 2003 when Medic 14 in Issaquah was expanded from a 12-hour half-time 2-paramedic unit to a full 24-hour unit. Medic 12 in Enumclaw was also expanded from a 12-hour half-time 2-paramedic unit to a full 24-hour unit in 2004. A new 12-hour peak unit, Medic 13, is proposed in the 2006 budget. These increases were anticipated in the *2002 EMS Strategic Plan Update* and implemented after analyzing workloads, response times, and percent back-up provided by other medic units.

Another significant increase in ALS service was the transition of EMT-P units to 2-paramedic units. As described in Part I - EMS System Review on page 15 of the report, this change was at the request by the Medical Program Directors. Medic 3, located in North Bend, was transitioned to a 2-paramedic unit in July 2003. Medic 35 was converted to a 2-paramedic unit in May 2005. Full medic unit funding will be completed by January 2006 (replacing the current shared funding scenario). In addition, funding for Vashon will be increased to 90% (\$1.3 million) in 2006.

The following chart shows how expenditure growth correlates to the number of ALS units in service:



BLS and Regional Support funding is projected to remain steady and not exceed CPI. BLS funding is projected to increase from \$8.53 million in 2002 to \$9.6 million in 2007. Regional Support funding is projected to increase from actuals of \$2.8 million in 2002 to a projection of \$4.7 million in 2007. Expenses for Regional Services, particularly personnel, indirect and overhead charges, are increasing higher than CPI. To accommodate these increases, Regional Services is planning on using under-expenditures from 2003 and 2004 (placed in a designated reserve to cover increased expenses, including overhead in 2006 and 2007). It is anticipated that there will be continued limited use of contingency reserve each year.

Significant revenue trends to monitor include growth of new construction, interest rates, and delinquent taxes. Current forecast and past economic trends appear to indicate that new construction growth may increase in the remaining years of the levy. Interest rates also appear to be rising. Expenditure trends to monitor include changes (particularly increases) in the local CPI, and labor and medical supply costs for paramedic services.

While CPI increases are included for all sub-funds in 2007, actual forecast expenditure increase from 2006 to 2007 is only .24%. This is due to a peak in expenditures in 2006 including replacement of seven paramedic vehicles, and a peak in Strategic Initiative cash flow (with increases in dispatch, levy planning and the ALS Transport Fee study initiatives).

As planned, revenues have exceeded expenditures for the first three years of the levy. Beginning in 2005, expenditures are projected to exceed revenues. Sufficient revenues have been saved (placed in the EMS Fund) to cover the difference between planned expenditure and revenue levels in 2005 through 2007. The forecast differential in 2005 is relatively small, approximately

\$800,000. By 2007, the differential is projected to grow to \$2.6 million. The EMS Levy end fund balance (EFB) is projected to be \$3.34 million. As the costs of providing services (primarily labor, pharmaceuticals and medical supplies) continue to exceed the growth in levy revenues, the next levy will also need to collect funds in the early years of the levy to cover expenditures in the last years of the levy.

E. 2005 EMS Financial Plan

The 2004-2006 EMS Financial Plan summarizes actual and projected revenues and expenditures for core EMS Division programs and services, major strategic initiative directions, and other additions. The EMS Financial Plan shows the current status of the undesignated fund balance in relationship to a target fund balance. The target fund balance is the equivalent of one month's operating costs for EMS activities. Please refer to *Appendix F: EMS Division Revenue/Expenditure Summary* on page 81 for details.

F. Recommendations for Fund Balance

The EMS Financial Plan currently projects available funds above the required end fund balance (EFB) of 1/12 year in expenditures of \$406,758. Due to the ALS challenges mentioned in the EMS System Review section, ALS costs that are projected to exceed CPI, and a desire to minimize cost-shifting to ALS providers, it is recommended that the EMS levy rate be set at the maximum allowable rate of the levy. Currently there are not sufficient funds to allow an increase above CPI for ALS providers if needed in 2007. It is prudent to set rates to maximize revenues to support needed ALS/paramedic services. If additional funds are collected, they will be used to address the unfunded needs highlighted in this report, specifically provision of ALS service in outlying areas or to increase the ALS allocation to minimize cost-shifting to ALS providers, including King County.